

Message Text

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ACTION EUR-12

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PASS TREASURY AND FRB

EO 11652: NA

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SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: JULY 25-31

1. SUMMARY: SWISS FRANC APPRECIATED SLIGHTLY AGAINST MOST
OTHER CURRENCIES. GOLD FIRMED SLIGHTLY IN NERVOUS MARKET.
SWISS BELIEVE FRANC WILL REMAIN STRONG; BELIEVE COUNTRIES
WITH LARGE RESERVES IN GOLD SHOULD COORDINATE POLICY TO
NEUTRALIZE EFFECT IMF AUCTION IN MARKET AND MAINTAIN GOLD'S
MONETARY STANDING. SWISS CAPITAL MARKET REMAINS HIGHLY
LIQUID; INTEREST RATES EXPECTED REMAIN STEADY. AVERAGE
INTEREST RATE ON SAVINGS ACCOUNT SURPASSED CONSUMER
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PRICE INCREASE FOR FIRST TIME IN SEVEN YEARS. SWISS

CLOCK EXPORTS DOWN. RETAIL SALES TURNOVER SHOWED
INCREASE FIRST HALF 1976 AND 1975. FEDERAL COUNCIL
PROPOSES RENT CONTROLS. END SUMMARY.

FINANCIAL

2. GOLD AND FOREIGN EXCHANGE: MARKETS NERVOUS, HECTIC
THURSDAY; SNB INTERVENTION RESTORED CALM. DOLLAR
DECLINED FROM SF 2.50 TO SF 2.48; DAM WAS STEADY WHILE
OTHER CURRENCIES SHOWED SLIGHT WEAKENING AGAINST SWISS
FRANC. BANK CIRCLES BELIEVE FRANC WILL REMAIN STRONG IN
VIEW SWISS BALANCE PAYMENTS SURPLUS AND LOW RATE INFLATION.
GOLD OPENED 110 MONDAY; 114 TUESDAY; CLOSED 112 FRIDAY.

RATES FOLLOW:

	9/20 (OPEN)	9/30(CLOSE)
SPOT DOLLAR	2,5055	2.4800
FORWARD DISCOUNTS (PCT.P.A.)		
ONE MONTH	- 4.31	- 4.60
2 MONTHS	- 4.33	- 4.28
3 MONTHS	- 4.34	- 4.35
6 MONTHS	- 4.11	- 4.03
12 MONTHS	- 4.07	- 3.97
SF/DM	97.24	97.46
GOLD	110.5	112.25

3. GOLD PRICE: SWISS BANK CIRCLES APPREHENSIVE COLLAPSE
GOLD PRICE COULD RESULT IN GREATER UPWARD PRESSURE
ON SWISS FRANC AS OPEC, OTHER INVESTORS SWITCH OUT OF
GOLD. IMPACT IMF AUCTIONS DEEMED NEGATIVE, REDUCING
INTENDED BENEFITS FOR DEVELOPING COUNTRIES FROM GOLD
SALE AS PRICE DROPS. SWISS BELIEVE IMF SHOULD SELL
GOLD THROUGH MARKET IN SMALL QUANTITIES AT MARKET PRICE.
IF IMF FAILS TAKE CORRECTIVE ACTION, SWISS BELIEVE
COUNTRIES WITH LARGE RESERVES IN GOLD MUST COORDINATE
MARKET POLICY TO NEUTRALIZE IMF ACTION IMPACT AND
RESTORE GOLD'S MONETARY STANDING.

4. SNB POLICY: SNB PRESIDENT LEUTWILER REPORTED ON
ARRANGEMENT WITH OIL PRODUCING COUNTRIES TO HELP MAINTAIN
SWISS MONETARY GOALS. SNB CREATED MEANS WHEREBY OIL
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MONIES MAY BE INVESTED IN MEDIUM-TERM NOTES ISSUED IN
FRANC BY INTERNATIONAL DEVELOPMENT ORGANIZATIONS.
DUAL PURPOSES SERVED; RECYCLING OIL MONEY AND OBLIGATION
ON BORROWER CONVERT INTO DOLLARS AVOIDS IMPACT ON FOREIGN
EXCHANGE MARKET.

5. MONEY AND CAPITAL: MARKETS CALM. CALL MONEY
RATE 0.5 PERCENT. STOCKS DECLINED SLIGHTLY; SKA

INDEX (1959 EQUALS 100) 210.4 JULY 29, DOWN FROM 212.3 JULY 23. AVERAGE YIELD CONFEDERATION BONDS 5.09. SNB PROVIDED SHORT-TERM FOREIGN EXCHANGE SWAPS COMMERCIAL BANKS FOR THEIR END-OF-MONTH REQUIREMENTS. UNION BANK OF SWITZERLAND REPORTS SWISS MARKET VERY LIQUID DUE DEPRESSED DEMAND FOR COMMERCIAL CREDIT AND NEW INVESTMENTS; SNB FOREIGN EXCHANGE MARKET INTERVENTIONS AND INCREASED SAVINGS HELPED INCREASE LIQUIDITY. AS RESULT INTEREST RATE ON THREE MONTH MONEY HAS FALLEN ONE PERCENT BELOW END APRIL RATE. LIQUIDITY AND STRONG ABSORPTIVE CAPACITY MARKET SHOWN BY SF 5.3 BILLION NEW LOANS FLOATED JAN-MAY, UP 47 PERCENT OVER SAME PERIOD 1975. OBSERVERS SAY FOREIGN DEMAND FOR SWISS FRANC LOANS DECLINING DUE EXCHANGE RISK APPRECIATING FRANC. GROWTH CONSTRUCTION LOANS FELL FROM 60 PERCENT JANUARY TO 2.5 PERCENT APRIL BUT HOUSING LOANS UP 40-45 PERCENT. PUBLIC SECTOR BORROWINGS EXPECTED INCREASE NEXT FEW MONTHS, BUT PRIVATE INVESTMENT TO REMAIN LOW. RESTOCKING INVENTORIES, REPLACEMENT AND RATIONALIZATION ECONOMY SHOULD GIVE RISE GREATER CREDIT DEMAND; INTEREST RATES SHOULD REMAIN STEADY UNLESS SNB TIGHTENS MONETARY POLICY. THIRD QUARTER NEW ISSUES (25 BORROWINGS FOR SF 1.4 BILLION) CONSIDERED MODERATE. LONG TERM RATES SHOULD REMAIN STEADY.

6. SAVINGS: AVERAGE INTEREST RATE SAVINGS ACCOUNTS AT 12 CANTONAL BANKS FIRST HALF 1976 WAS 4.4 PERCENT, WHILE CONSUMER PRICE INDEX ROSE 2.3 PERCENT, FOR REAL INTEREST 2.1 PERCENT. FIRST TIME IN 7 YEARS INTEREST ON SAVINGS GREATER THAN CIP INCREASE.

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7. WATCH INDUSTRY: INDUSTRY EXPORTS FIRST HALF 1976 WERE SF 1,373.6 MILLION, 4.7 PERCENT BELOW LAST YEAR. WATCH AND MOVEMENT EXPORTS OF 27.8 MILLION UNITS VALUED SF 1,153.7 MILLION WERE 4.3 PERCENT BELOW 1975. INDUSTRY SPOKESMAN POINTED OUT THAT INDUSTRY MORE DEPRESSED THAN FIGURES SHOW BECAUSE 1975 EXPORTS CONSIDERABLY LOWER THAN IN 1974.

8. RETAIL SALES: TOTAL RETAIL SALES TURNOVER IN JUNE UP 5.4 PERCENT OVER JUNE 1975, AFTER 5.9 PERCENT DROP MAY. FIRST HALF 1976 RETAIL TURNOVER UP 4.5 PERCENT OVER FIRST HALF 1975.

9. RENT CONTROLS: FEDERAL COUNCIL SENT MESSAGE TO PARLIAMENT PROPOSING UNIFORM SYSTEM OF CONTROLS TO PROTECT RENTERS.

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